

## Message Text

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17

ACTION NEA-09

INFO OCT-01 EUR-12 ISO-00 CIAE-00 DODE-00 PM-03 H-01

INR-07 L-02 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15

USIA-06 EB-07 COME-00 AID-05 TRSE-00 OMB-01 NIC-01

AGR-05 INT-05 FEA-01 STR-01 SAJ-01 /092 W

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R 030840Z MAR 75

FM AMEMBASSY TEHRAN

TO SECSTATE WASHDC 457

INFO AMEMBASSY BONN

AMEEMBASSY BUCHAREST

AMEMBASSY KABUL

AMEMBASSY MOSCOW

AMEMBASSY NEW DELHI

AMEMBASSY SOFIA

AMEMBASSY WARSAW

C O N F I D E N T I A L TEHRAN 2018

E.O. 11652: GDS

TAGS: ETRD, EINV, EALR, PFOR, IR, UR

SUBJ: IRAN/USSR ECONOMIC RELATIONS

REF: TEHRAN 1894

1. SUMMARY: SINCE REFTEL WAS DRAFTED, OFFICIAL GOI PRESS RELEASE DESCRIBING IRAN/USSR PROTOCOL SIGNED AT END OF THE ANSARY VISIT HAS BECOM AVAILABLE, AND EMBOFF DISCUSSED THE SUBJECT WITH FEREDOUN FARHANG, DIRECTOR OF FOREIGN EXCHANGE CONTROL DEPARTMENT, CENTRAL BANK OF IRAN, WHO WAS A MEMBER OF THE IRANIAN DELEGATION. RUSSIAN ASSISTANCE IN ESTABLISHING TRAINING CENTERS IN IRAN, AN IRAN/USSR RAILWAY LINK IN THE NORTHEAST, AND POSSIBLE JOINT PROJECTS IN THIRD COUNTRIES WERE NOT MENTIONED IN EARLIER PRESS ACCOUNTS. A MEETING IS SCHEDULED THIS MONTH ON THE IRAN/USSR/FRG TRIPARTITE NATURAL GAS DEAL. END SUMMARY.

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2. JOINT VENTURE PAPER MILL IN USSR: PRESS RELEASE NOTED IRANIAN

"AGREEMENT IN PRINCIPLE" TO MAKE A LOAN TO THE USSR FOR PART OF EXPENSES OF CONSTRUCTING THE MILL. FARHANG SAID THE RUSSIANS SEEMED TO BE KEENLY INTERESTED IN OBTAINING AN IRANIAN CREDIT FOR THE PROJECT. WHETHER THE CREDIT WOULD INVOLVE ANY IRANIAN EQUITY INVESTMENT REMAINS TO BE WORKED OUT. FARHANG SAID THE SOVIETS HAD A LEGAL ADVISOR PRESENT AT THE MEETINGS AND THAT THE RUSSIAN SIDE PROMISED TO CLARIFY EVENTUALLY THE LEGAL STATUS OF POSSIBLE IRANIAN INVESTMENT IN THE USSR. HE CLAIMED THE AMOUNT OF THE POSSIBLE IRANIAN PARTICIPATION ALSO WOULD BE DECIDED UPON LATER.

3. EXPANSION OF ISFAHAN STEEL MILL: THE PRESS RELEASE CONDITIONED EXPANSION OF THE SOVIET-BUILD PLANT ON THE AVAILABILITY OF AN ADEQUATE SUPPLY OF COAL. FARHANG MENTIONED FREQUENTLY HEARD CRITICISMS OF ANTIQUATED RUSSIAN TECHNOLOGY AND INEFFICIENCY AT ISFAHAN, BUT SAID EXPANSION TO 8 MILLION METRIC TONS CAPACITY MIGHT EVENTUALLY BE WORKED OUT WITH THE RUSSIANS BECAUSE OF THE SCANT AVAILABILITY OF ANYTHING ELSE TO BUY FROM THE USSR WHICH IRAN WANTS.

4. ELECTRIC POWER PLANTS: PRESS RELEASE SPECIFIES TWO ELECTRIC POWER PLANTS TO BE BUILT BY SOVIETS--ONE WITH 630,000 KW CAPACITY AT AHWAZ AND ANOTHER WITH 800,000 KW CAPACITY AT ISFAHAN.

5. TRAINING CENTERS: PRESS RELEASE STATES THAT SOVIETS WILL EQUIP 20 INDUSTRIAL ARTS SCHOOLS, A TEACHERS' TECHNICAL TRAINING SCHOOL, AND TWO TECHNOLOGICAL INSTITUTES.

6. RAIL LINK IN NORTHEAST: PRESS RELEASE STATES THAT "IRAN AND THE USSR AGREED TO COOPERATE IN ESTABLISHING THE MASHAD-TAJAN RAILROAD WITH A TOTAL LENGTH OF ABOUT 300 KILOMETERS." EXPERTS FROM BOTH SIDES ARE TO MEET LATER IN TEHRAN TO DISCUSS PROJECT DETAILS. (COMMENT: THERE IS AT PRESENT NO IRAN/USSR RAIL LINK OTHER THAN ON THE NORTHWESTERN BORDER AT JULFA. IN THE PAST, SUGGESTIONS THAT A CONNECTION BE MADE IN THE NORTHEAST HAVE COME TO NOTHING.)

7. THIRD COUNTRY JOINT PROJECTS: PRESS RELEASE REFERRED TO ANOTHER MEETING IN THE LATTER PART OF 1975 AT WHICH "FURTHER APPROVAL IN PRINCIPLE" WOULD BE DISCUSSED ON COOPERATION IN THIRD COUNTRIES AFTER "DIFFERENT POSSIBILITIES" OF THIRD COUNTRY COOPERATION HAD BEEN LOOKED INTO BY EXPERTS IN BOTH COUNTRIES. FARHANG SAID HE THOUGHT INDIA AND AFGHANISTAN MIGHT BE POSSIBLE LOCATIONS FOR

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JOINT PROJECTS.

8. GOLD CLAUSE: FARHANG SAID THE "BASKET OF CURRENCIES" ON WHICH THE VALUE OF TRADE BETWEEN THE SOVIET UNION AND IRAN WOULD BE BASED PROBABLY WOULD CONSIST OF FOUR OR FIVE LEADING OECD CURRENCIES, INCLUDING THE US DOLLAR. THE RUSSIANS SHOWED NO INTEREST IN USING THE CURRENCY BASKET ON WHICH IMF SPECIAL DRAWING RIGHTS ARE BASED. THE SPECIFIC CURRENCIES WILL BE WORKED OUT AT A LATER

MEETING.

9. OTHER PROJECTS: PRESS RELEASE NOTED RUSSIAN WILLINGNESS TO ASSIST IN CONSTRUCTING GRAIN SILOS BUT DID NOT MENTION EXPANSION OF ARAK MACHINE BUILDING PLANT. FARHANG SAID THE IRANIANS WOULD HAVE LIKED TO NEGOTIATE AGRO-BUSINESS PROJECTS WITH THE RUSSIANS, BUT THEY OFFERED NOTHING IN WHICH THE GOI IS INTERESTED. HE STRESSED THE DIFFICULTY OF FINDING JOINT PROJECTS AGREEABLE TO BOTH SIDES.

10. IN RESPONSE TO EMBOFF'S QUESTION ABOUT THE LACK OF ANY MENTION OF THE IRAN/USSR/WEST GERMAN TRI-PARTITE ARRANGEMENT ON NATURAL GAS, FARHANG DENIED ANY KNOWLEDGE OF DISCUSSIONS ON THE DEAL DURING LAST WEEK'S MOSCOW MEETING. HOWEVER, HE CITED HIS "IMPRESSION" THAT THE SOVIETS AND GERMANS HAVE REACHED AGREEMENT. HE SAID REPRESENTATIVES OF THE NATIONAL IRANIAN GAS COMPANY WILL MEET WITH THE WEST GERMANS AND RUSSIANS IN MOSCOW BEFORE THE END OF MARCH AND THAT A TRI-LATERAL AGREEMENT MAY BE ANNOUNCED AFTER THAT MEETING. HE ADDED THAT EVENTUALLY IRAN MAY INSIST ON CASH PAYMENT FROM THE USSR FOR ITS GAS EXPORTS. WITH THE NEW HIGHER PRICE FOR GAS, THE TRADE BALANCE WITH THE USSR IS MOVING FROM DEFICIT TO SURPLUS FOR IRAN, AND THE GOI EVENTUALLY WILL NOT BE ABLE TO SPEND ITS EARNINGS ON IMPORTS FROM RUSSIA.

11. AS HAS BEEN THE CASE PREVIOUSLY IN BILATERAL DEALS WITH THE USSR AND OTHER COUNTRIES, DETAILS IN MOST CASES REMAIN TO BE NEGOTIATED. SOME PROPOSED NEW PROJECTS AND EXPANSION OF OLD ONES LIKELY WILL FALL BY THE WAYSIDE. JOINT VENTURES IN THIRD COUNTRIES SEEM ESPECIALLY UNLIKELY.  
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